

IN THE MATTER OF THE SECURITIES LEGISLATION OF  
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA,  
ONTARIO, NEW BRUNSWICK, NOVA SCOTIA,  
PRINCE EDWARD ISLAND AND NEWFOUNDLAND

AND

IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM FOR  
EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF  
INTERNATIONAL BUSINESS MACHINES CORPORATION,  
3040696 NOVA SCOTIA COMPANY AND IBM ACQUISITION INC.

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland (collectively, the "Jurisdictions") has received an application from International Business Machines Corporation ("IBM"), 3040696 Nova Scotia Company ("IBM Holdings") and IBM Acquisition Inc. (the "Canadian Offeror") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that certain trades made following the completion of the offers (the "Offers") by the Canadian Offeror and IBM Acquisition II L.L.C. (the "US Offeror" and, collectively with the Canadian Offeror, the "Offeror") to purchase all of the issued and outstanding Class A Subordinate Voting Shares (the "Class A Shares") and Class B Multiple Voting Shares (the "Class B Shares" and, collectively with the Class A Shares, the "Shares") of LGS Group Inc. ("LGS") are not subject requirement contained in the Legislation to be registered to trade in a security (the "Registration Requirement") and the requirement contained in the Legislation to file a preliminary prospectus and a prospectus and receive receipts therefor (the "Prospectus Requirement" and together with the Registration Requirement, the "Registration and Prospectus Requirements");

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS IBM, IBM Holdings and the Canadian Offeror have represented to the Decision Makers as follows:

1. IBM is a corporation incorporated under the laws of the State of New York.
2. IBM is currently subject to the reporting requirements of the United States Securities Exchange Act of 1934, as amended. IBM is not a reporting issuer (as such term is defined in applicable Canadian securities legislation) in any of the provinces of Canada.

3. IBM's authorized share capital consists of 150,000,000 shares of preferred stock ("Preferred Shares") and 4,687,500,000 shares of common stock, par value U.S.\$0.20 (the "IBM Common Stock"). As of December 31, 1999, IBM's issued capital consisted of 2,546,011 Preferred Shares and 1,876,665,245 shares of IBM Common Stock. The IBM Common Stock is listed on the New York Stock Exchange (the "NYSE"), the Chicago Stock Exchange and the Pacific Stock Exchange.

4. IBM Holdings is an indirect wholly-owned subsidiary of IBM, incorporated under the Companies Act (Nova Scotia) for the purpose of implementing the Offers.

5. IBM Canada is a corporation incorporated under the laws of Canada. IBM Canada is an indirect wholly-owned subsidiary of IBM.

6. The Canadian Offeror is a corporation incorporated under the laws of Canada and is an indirect wholly-owned subsidiary of IBM. The Canadian Offeror was incorporated on March 10, 2000 for the purpose of making the Offers. The Canadian Offeror has no material assets or liabilities and no operating history.

7. The authorized capital of the Canadian Offeror consists of an unlimited number of common shares and an unlimited number of exchangeable shares ("Exchangeable Shares"). The Canadian Offeror's issued capital consists of 100 common shares, all of which are owned by IBM Holdings and Exchangeable Shares.

8. LGS is a corporation incorporated under the laws of Canada.

9. LGS is a reporting issuer in all Provinces of Canada that have reporting issuer provisions in their securities legislation.

10. LGS's authorized share capital consists of an unlimited number of first preferred shares, issuable in series ("First Preferred Shares"), an unlimited number of second preferred shares, issuable in series ("Second Preferred Shares"), an unlimited number of Class A Shares, an unlimited number of Class B Shares and an unlimited number of Class C Multiple Voting Shares ("Class C Shares"). According to information provided to the Canadian Offeror by LGS, as of March 10, 2000, there were outstanding 10,041,573 Class A Shares, 2,852,000 Class B Shares and no First Preferred Shares, Second Preferred Shares or Class C Shares. In addition, as at that date the Corporation had outstanding Rights (as defined below) entitling holders to acquire an additional 1,859,429 Class A Shares. The Shares are listed on the TSE and The Nasdaq Stock Market, Inc.

11. The Offeror offered to purchase, upon the respective terms and subject to the respective conditions described in the take-over bid circular dated March 15, 2000 (the "Circular"), (i) all of the issued and outstanding Class A Shares (the "Class A Offer") and (ii) all of the issued and outstanding Class B Shares (the "Class B Offer" and together with the Class A Offer, the "Offers"), including, in the case of the Class A Offer, Class A Shares issuable upon the exercise of existing options, warrants, rights, or other entitlements (collectively, "Rights") to acquire

Class A Shares and in the case of the Class B Offer, Class B Shares issuable upon the exercise of existing Rights, for consideration per Share consisting of C\$19.00 (the "Purchase Price").

12. The Offers expired on April 5, 2000. At the time of expiry, the Offers had been accepted by the holders of not less than 90% of the issued and outstanding Class A Shares and by the holders of 100% of the issued and outstanding Class B Shares, other than the Shares held on the date of the Offers by or on behalf of the Offeror and its affiliates and associates (as such terms are defined in the Canada Business Corporations Act ("CBCA"), and such Shares have been taken up and paid for by the Offeror. The Offeror intends to effect a compulsory acquisition pursuant to the provisions of Section 206 of the CBCA and acquire the remaining Shares of the relevant class, on the same terms as the Shares acquired under the Offers.

13. Under the terms of the Offers, holders of Shares ("Shareholders") who are residents of Canada could elect to receive the Purchase Price in the form of Exchangeable Shares in lieu of cash (the "Share Option"). Shareholders who are not residents of Canada received the Purchase Price in the form of cash (the "Cash Option") from the Canadian Offeror or elected to receive shares of IBM Common Stock from the US Offeror. Shareholders who made no election were deemed to have elected the Cash Option. Eligible Shareholders (as defined in the Circular) who elected the Share Option received 0.1088 Exchangeable Shares for each Share purchased in the applicable Offer, which fraction was calculated by dividing the US dollar equivalent of the Purchase Price by the average closing price of a share of IBM Common Stock on the NYSE for the ten trading days ending immediately prior to April 5, 2000, the date on which the Offeror first took up and paid for the Shares under the Offers. The US dollar equivalent was determined by reference to the noon spot rate established by the Bank of Canada for the conversion of Canadian dollars into US dollars on the business day preceding such date.

14. The Canadian Offeror will not issue fractional Exchangeable Shares and any Shareholders who elected the Share Option will receive cash in lieu of such fractional shares which would otherwise be issued.

15. On February 15, 2000, Mr. Raymond Lafontaine and Mr. André Authier, 115523 Canada Inc. and 115525 Canada Inc. (collectively, the "Locked-up Shareholders") entered into a support agreement (the "Support Agreement") with IBM Canada pursuant to which the Locked-up Shareholders agreed to deposit under the Offers 305,952 Class A Shares and 2,852,000 Class B Shares, representing approximately 3.05% of the outstanding Class A Shares and 100% of the Class B Shares (2.57% and 100% on a fully-diluted basis).

16. The Exchangeable Shares were issued by the Canadian Offeror. The Exchangeable Shares are intended to be economically equivalent to shares of IBM Common Stock. The Exchangeable Shares are exchangeable, at any time at the option of the holder, on a one-for-one basis, for shares of IBM Common Stock. Holders of Exchangeable Shares are entitled to receive from the Canadian Offeror dividends (payable in Canadian dollars in the case of cash dividends) that are economically equivalent to any dividends paid on the IBM Common Stock. The Exchangeable Shares are subject to adjustment or modification in the event of a stock split or other changes to the IBM Common Stock so as to maintain at all times a one-to-one relationship between the Exchangeable Shares and shares of IBM Common Stock.

17. Subject to applicable law, and to the Retraction Call Right of IBM and IBM Holdings described below, holders of the Exchangeable Shares are entitled at any time to retract (that is, to require the Canadian Offeror to redeem) any or all such Exchangeable Shares owned by them and to receive in respect of each Exchangeable Share retracted, one share of IBM Common Stock, plus the "Additional Amount". The "Additional Amount" with respect to each Exchangeable Share is an amount equal to the full amount of all declared and unpaid dividends and other distributions, if any, on each such Exchangeable Share and all dividends and other distributions, if any, declared on IBM Common Stock that have not been declared on each Exchangeable Share, in each case with a record date prior to the effective date of any exchange of Exchangeable Shares for shares of IBM Common Stock by the holder.

18. In the event a holder of Exchangeable Shares requests that the Canadian Offeror retract any or all of such Exchangeable Shares held by him, her or it, the Canadian Offeror is required to immediately notify IBM and IBM Holdings of such retraction request. IBM or IBM Holdings will then have five business days in which to exercise a retraction call right (the "Retraction Call Right") to purchase all of the Exchangeable Shares submitted for retraction. If IBM or IBM Holdings exercises its Retraction Call Right, it must deliver or cause to be delivered, one share of IBM Common Stock, plus the Additional Amount, in respect of each Exchangeable Share submitted for retraction, to the Canadian Offeror's transfer agent for delivery to the holder. If neither IBM nor IBM Holdings determines to exercise its Retraction Call Right, the Canadian Offeror is obligated to deliver to the holder one share of IBM Common Stock, plus the Additional Amount, in respect of each Exchangeable Share submitted for retraction unless it revokes its notice of retraction.

19. Subject to applicable law, and the Redemption Call Right of IBM and IBM Holdings described below, on any Optional Redemption Date (defined below), the Canadian Offeror may redeem all of the Exchangeable Shares then outstanding (other than those beneficially owned by IBM or its subsidiaries) in exchange for one share of IBM Common Stock, plus the Additional Amount, in respect of each Exchangeable Share redeemed. The "Optional Redemption Date" may be no earlier than April 6, 2010 unless at any time there are then less than 170,000 Exchangeable Shares outstanding (other than Exchangeable Shares held by IBM and its subsidiaries and subject to adjustment to such number of shares to reflect permitted changes to the Exchangeable Shares), in which event the Optional Redemption Date may be established as any date after such time.

20. If the Canadian Offeror elects to redeem the Exchangeable Shares, IBM and IBM Holdings will have the overriding right (the "Redemption Call Right") to purchase on the Optional Redemption Date all of the outstanding Exchangeable Shares (other than Exchangeable Shares beneficially owned by IBM or its subsidiaries) in exchange for one share of IBM Common Stock, plus the Additional Amount, for each such Exchangeable Share. If either IBM or IBM Holdings exercises its Redemption Call Right, the Canadian Offeror's right to redeem the Exchangeable Shares on such Optional Redemption Date will terminate.

21. Subject to applicable law and the Liquidation Call Right of IBM and IBM Holdings described below, in the event of the liquidation, dissolution or winding up of the Canadian Offeror, holders of the Exchangeable Shares will have preferential rights to receive from the

Canadian Offeror one share of IBM Common Stock, plus the Additional Amount, for each Exchangeable Share they hold.

22. Upon the occurrence of any liquidation, dissolution or winding up of the Canadian Offeror, IBM and IBM Holdings will have the overriding right (a "Liquidation Call Right") to purchase all of the outstanding Exchangeable Shares (other than Exchangeable Shares beneficially owned by IBM or its subsidiaries) from the holders thereof on the effective date of such liquidation, dissolution or winding up, in exchange for one share of IBM Common Stock, plus the Additional Amount, for each such Exchangeable Share.

23. Except as required by law and the terms of the Exchangeable Shares, holders of Exchangeable Shares are not entitled to receive notice of or to attend any meetings of shareholders of IBM or the Canadian Offeror or to vote at any such meeting.

24. IBM, IBM Holdings, the Canadian Offeror and CIBC Mellon Trust Company (the "Trustee") have entered into an Exchange Trust Agreement which provides holders of Exchangeable Shares with the Automatic Exchange Right and the Exchange Right described below, and IBM, IBM Holdings and the Canadian Offeror have entered into a Support Agreement to give effect to the provisions of the Exchangeable Shares.

25. Upon the occurrence of the liquidation, dissolution or winding up of IBM, whether voluntary or involuntary (an "IBM Liquidation Event"), in order for the holders of the Exchangeable Shares to participate on a pro rata basis with the holders of IBM Common Stock in the liquidation, dissolution or winding up contemplated by a IBM Liquidation Event, all the outstanding Exchangeable Shares held by holders (other than IBM and its subsidiaries) will be automatically exchanged (the "Automatic Exchange Right") for shares of IBM Common Stock. To effect such exchange, IBM will purchase, on the fifth business day prior to the IBM Liquidation Event, all outstanding Exchangeable Shares (other than Exchangeable Shares beneficially owned by IBM or its subsidiaries) in exchange for one share of IBM Common Stock, plus the Additional Amount in respect of each Exchangeable Share.

26. Upon the institution of, or consent of the Canadian Offeror to, any proceeding to be adjudicated a bankrupt or insolvent or to be dissolved or wound up, and the failure by the Canadian Offeror to contest in good faith any such proceeding within 15 days of the Canadian Offeror becoming aware thereof, or the making by the Canadian Offeror of a general assignment for the benefit of its creditors, or an admission by the Canadian Offeror in writing that it is unable to pay its debts generally as they become due, or the Canadian Offeror being unable, pursuant to applicable law to redeem such shares when retracted by their holder (each a "Canadian Offeror Insolvency Event"), the Trustee on behalf of the holders of Exchangeable Shares, has the right to require IBM or IBM Holdings to purchase (the "Exchange Right") each Exchangeable Share then outstanding (other than Exchangeable Shares beneficially owned by IBM or its subsidiaries) in exchange for one share of IBM Common Stock, plus the Additional Amount.

27. Under the IBM Support Agreement, IBM has covenanted to do, among other things, the following to give effect to the provisions of the Exchangeable Shares (the "Exchangeable Share Provisions"):

(a) IBM will take all necessary actions to ensure that, if any dividends are declared on the IBM Common Stock, the Canadian Offeror will have sufficient money or other assets or authorized securities available to enable the due declaration and payment of an equivalent dividend on the Exchangeable Shares;

(b) IBM will take all actions necessary to ensure that the record date and payment date for dividends on the Exchangeable Shares are the same as those established for the IBM Common Stock;

(c) IBM will take all actions and do all things necessary to ensure that the Canadian Offeror is able to pay to the holders of the Exchangeable Shares the required number of shares of IBM Common Stock, plus the Additional Amount per Exchangeable Share, in the event of a liquidation, dissolution or winding up of the Canadian Offeror, the receipt of a retraction request from a holder of Exchangeable Shares or a redemption of Exchangeable Shares by the Canadian Offeror; and

(d) IBM will not vote or otherwise take any action or omit to take any action causing the liquidation, dissolution or winding up of the Canadian Offeror.

28. Certain trades or potential trades in Exchangeable Shares and shares of IBM Common Stock will or may take place in connection with the various exchange and call rights created under the Exchangeable Share Provisions and the Exchange Trust Agreement. To the extent that there are no exemptions from the Registration and Prospectus Requirements for such trades (the "Non-Exempt Trades"), exemptive relief is required.

29. Holders of Shares made one investment decision when at the time they chose to tender their Shares to the Offers and accept Exchangeable Shares, as opposed to cash, in return and the subsequent Non-Exempt Trades arise directly out of the collection of rights acquired by holders of Shares who elected to receive Exchangeable Shares.

30. If not for tax considerations, Canadian shareholders of LGS could have received IBM Common Stock without the option of receiving Exchangeable Shares. The Exchangeable Shares were issued to provide Canadian Shareholders with securities on a tax deferred basis and to otherwise preserve the tax attributes applicable to Canadian shareholders of LGS.

31. The Circular disclosed that, in connection with the Offers, IBM, IBM Holdings and the Canadian Offeror will be making application for required relief from the Registration and Prospectus Requirements.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Makers with the jurisdiction to make the decision has been met;

THE DECISION of the Decision Makers pursuant to the Legislation is that the Registration and Prospectus Requirements shall not apply to a Non-Exempt Trade provided that the first trade in a Jurisdiction of shares of IBM Common Stock acquired pursuant to this Decision Document shall be subject to the Prospectus Requirement in the Jurisdiction except where

A. immediately following the issuance of the Exchangeable Shares

(i) residents of the applicable Jurisdiction holding shares of IBM Common Stock, assuming that all shares of IBM Common Stock issuable on the exchange of Exchangeable Shares have been issued, represented less than 10% of the registered shareholders of IBM holding less than 10% of the outstanding shares of IBM Common Stock; or

(ii) residents of the applicable Jurisdiction beneficially owning shares of IBM Common Stock, assuming that all shares of IBM Common Stock issuable on the exchange of Exchangeable Shares have been issued, represented less than 10% of the beneficial shareholders of IBM holding less than 10% of the outstanding shares of IBM Common Stock; and

B. the first trade is executed through the facilities of a stock exchange or on a market outside of Canada and such first trade is made in accordance with the rules of the stock exchange or market.

DATED this 28th day of April, 2000.

J.A. Geller    Morley P. Carscallen